

# Module 2. Financial systems and how they operate



In this course, we will focus on a fundamental—yet largely—overlooked topic: financial systems and their relationship with sport. First, we will introduce financial systems and elaborate on their overall importance, as well as on some of their key elements and actors within it. We will then move on to discuss the operational relationship they have with sport. Following this, we will examine the relationship that financial systems have with commercial sport, as well as with amateur or non-commercial sports. Emphasis will be placed on governmental financial systems and how they support elite sport and sports organisations. Finally, the very topical issue of private investment and asset management and sports organisations will be discussed, to better reflect the current and expected future trend within the sport industry.



**Unit 2.1 Financial systems**



**Unit 2.2 Financial systems and sport**





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## Unit 2.1 Financial systems

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Financial systems are the intricate structures and processes that manage and regulate the flow of money, investments, and capital within an economy. They serve as the backbone of financial transactions and resource allocation in modern societies. These systems encompass a wide range of components, including institutions, markets, regulations, and mechanisms that facilitate the movement of funds and the effective functioning of financial activities (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

At their core, financial systems comprise financial institutions like banks, credit unions, insurance companies, and investment firms that provide various financial services. These institutions act as intermediaries, connecting those who have surplus funds (savers) with those who need capital (borrowers). Additionally, financial markets, such as stock exchanges and bond markets, provide platforms for the buying and selling of financial assets, offering liquidity and price determination.

Furthermore, regulatory bodies and government agencies oversee and enforce rules and regulations to ensure the stability and fairness of the financial systems. They play a critical role in protecting consumers, investors, and maintaining market integrity. Payment systems, including credit cards, electronic funds transfers, and clearing houses, enable secure and efficient monetary transactions, while central banks manage monetary policy and regulate the money supply to maintain economic stability (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

Taking all this into account, we need to appreciate that financial systems are a fundamental aspect of modern economies, influencing economic growth and development. They help allocate resources efficiently, promote investment, and allow individuals and businesses to manage their finances and risks. However, their proper functioning and stability require extensive oversight and regulation to mitigate potential risks and protect the interests of all participants.

While the following list is not exhaustive, it encapsulates the main aspects or actors of financial systems (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011):

1

financial institutions, such as banks, credit unions, insurance companies, investment firms, and other entities that offer financial services. These institutions act as intermediaries, collecting deposits

from savers and providing loans and other financial services to borrowers.

2

Financial markets where financial assets are bought and sold, and which can be categorised into stock markets, bond markets, commodity markets, foreign exchange markets, and more. They provide liquidity and pricing for financial instruments, allowing buyers and sellers to interact.

3

Regulatory bodies, such as Government agencies and regulatory authorities, which oversee and regulate financial institutions and markets. These establish and enforce rules and regulations to maintain market integrity, protect investors, and ensure financial stability.

4

Payment systems which enable the movement of money between individuals and entities. These include credit card transactions, electronic funds transfers, and clearing houses that facilitate secure and efficient financial transactions.

5

Central banks, such as the Federal Reserve in the United States, play a central role in managing a country's monetary policy. They regulate the money supply, set interest rates, and intervene in financial markets to stabilise the economy.

6

Investment and asset management, including mutual funds, hedge funds, and private equity firms, manage investments on behalf of individuals and institutions. These make investment decisions based on the goals and risk tolerance of their clients.

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Credit rating agencies, which assess the creditworthiness of entities, including governments, corporations, and financial instruments. These assign credit ratings that help investors and lenders make informed decisions.

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## Unit 2.2 Financial systems and sport

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Financial systems wield substantial influence over the sports sector, shaping the economic landscape, competitiveness, and development of this industry (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). The financial system's role in sports is multifaceted. First and foremost, it determines the financial health and stability of sports organisations, from professional teams to grassroots clubs. Access to capital, bank loans, and investments is critical for building and maintaining sporting facilities, signing talented athletes, and sustaining day-to-day operations. The financial system's stability, as well as lending rates and available credit, directly impact on the ability of sports entities to fund capital projects and remain competitive.

Moreover, the financial system plays a pivotal role in player transfers and contracts. The payment of transfer fees, signing bonuses, and player salaries relies on the financial health and liquidity of clubs. The ability to attract and retain star athletes can significantly impact on a team's performance and its ability to generate revenue through ticket sales, merchandise, and sponsorships. Financial systems also influence the ability of sports organisations to comply with salary cap

regulations in leagues, which aim to promote competitive balance by limiting the amount of money a team can spend on player salaries.

Sponsorship and advertising within the sports sector are also intimately linked with the financial system (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). The stability of the financial system can impact on corporate sponsorships, as companies may adjust their marketing budgets based on broader economic conditions. In times of financial instability, businesses may reduce or reallocate sponsorship expenditures, directly affecting the revenue streams of sports organisations. Similarly, the financial system can influence fan attendance, discretionary spending on sports events, and investments in sports memorabilia and merchandise, all of which impact on the economic performance of the sports sector.

Lastly, the financial system can also affect the development of sports infrastructure. The availability of project financing, government support, and private investments in stadium construction, renovations, and upgrades is deeply tied to the financial climate (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). The financial system's health can either facilitate or hinder the ability of sports organisations to enhance fan experiences through state-of-the-art facilities, thereby influencing the long-term sustainability and appeal of the sports sector.

Within the wider financial system, there exist different actors and, out of them, some are more closely related to sport. The key actors within the wider financial system that are the most closely connected with sport are the government and the governmental financial systems, and banks and other financial institutions. These two different systems seem to have developed a very close relationship with sport, with each system having a closer relationship and influence on different aspects of sport. As we will discuss later in this module, we can see, for example, that commercial sports have developed a closer relationship and interconnectivity with financial systems, such as banks, while non-commercial sports seem to still have an intrinsic and very close relationship with governmental financial systems.

So, let us look into the influence of financial systems in the sport sector by first making a distinction between commercial/professional sport and non-commercial/amateur sport. As we will discuss below, a clear distinction and tangible difference exists between the two, in their relationship with the different financial systems.

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## Unit 2.3 Financial systems and commercial sport

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Let us begin by examining the relationship that we discussed above between financial systems and sport by focusing on commercial sport. These are professional sports that generate adequate revenue for them to be able to pay the players/athletes participating in them and to be able to generate, hopefully, profit at the end of each season. For these professional sports, the financial systems can assist them in ensuring the financial health and stability of the sport organisations within them. First, the additional access to capital by providing bank loans and funds for investments is of particular importance when we consider building and maintaining sporting facilities or acquiring new talent. The sustainability of day-to-day operations is also important, but sporting facilities and signing of athletes are considered to be so expensive that might require additional financial assets to be acquired. The stability of the financial system, in terms of the lending rates and what credit can be available for professional sports organisation, is thus particularly important for them (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

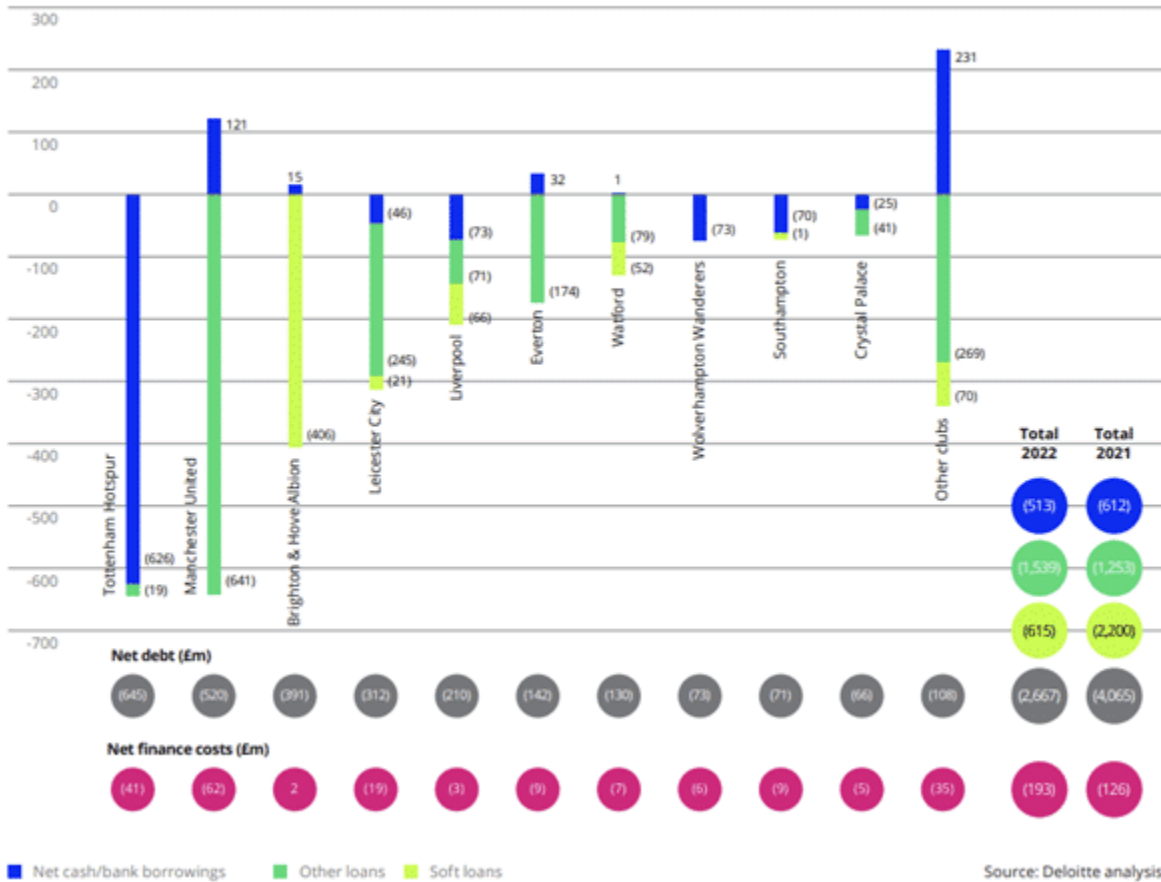
Now let us focus on what we discussed in our last module. The biggest expense of professional sports organisation is player transfers and contracts. By paying the player wages, sport organisations are committing to a very high expense that—as we discussed in our previous module—can surpass the overall income of the organisation. If that is the case, then additional money is required for these expenses to be paid.

The solution to that often comes in loans. Now, loans and any sort of debt—as we discussed earlier on in our course—are not fundamentally a bad thing because they can help in the further development of a sport organisation. However, the way that this is managed, as well as the type or nature of debt, is of particular importance.

To better illustrate this, let us examine the figure below.

**Figure 1. Premier League clubs' net debt in 2022**

Chart 9: Premier League clubs' net debt – 2022 (£m)



Source: Deloitte, 2023, p. 18.

In this figure, we can see clubs of the Premier League and their net debt for the year 2022. Within it, we can see some of the biggest clubs in the world, like Manchester United, Liverpool, and Everton. We can also see different colours representing different debt, and it is worth examining the differences between them.

Dark blue, in this case, is the net cash or bank borrowings, clearly indicating loans of different types from financial institutions like banks; green represents other loans, and yellow represents soft loans.

Now, again, a distinction needs to be made between these different types of debt and, for this distinction to be made, we will need to quote Deloitte (2023). In their report they argue the following:

Net debt/funds includes net cash/ bank borrowings, other loans, and soft loans. Bank borrowings is debt advanced by lenders in the form of term loans, overdrafts or hybrid products, net of any positive cash balance. Other loans include securitisation and player finance monies, bonds and convertible loan stock, intercompany loans and loans from related parties that are not otherwise soft loans. Soft loans include amounts from related parties with no interest charged. (Deloitte, 2023, p. 45).

This clarification should be considered when we look at the figure again. Whilst this image might indeed look alarming, it is worth acknowledging—first and foremost—that it is an indication that the financial system around these organisations operates well. This financial system, including banks, is operating well enough to be able to provide these clubs with these loans, allowing themselves to make investments in new infrastructure and, most importantly, player wages. Again, it is worth noticing that different loans come from different aspects. So, for example, soft loans like the ones depicted in

the figure in yellow colour are often money borrowed from the owners of the club, and they are called soft loans because they have a different structure and rates. Often, these rates are very low when compared to bank loans, or in this case, they could have no interest rates at all.

It is also worth acknowledging that this is not a unique image to look at, and it should be interpreted as a rather healthy image for the financial system around the clubs. To understand this lack of uniqueness, we can also investigate debt on the wider league in which these clubs operate. If we look at the figure below, we can see that debt seems to exist in not only big Premier League clubs, but also in championship clubs.

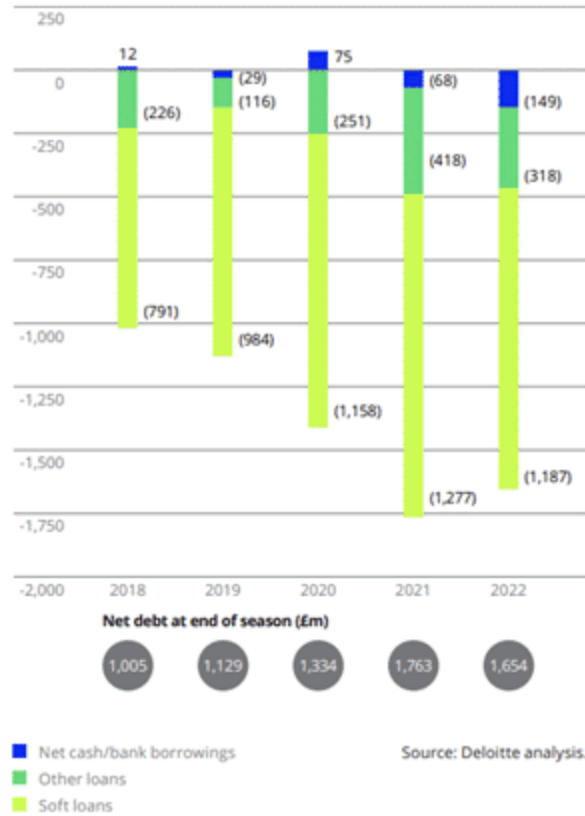
In the figure below, we can see an aggregation of all the debt of all Premier League clubs juxtapositioned with the debt of the championship clubs. So, let us look at those two figures together.

**Figure 2. Premier League clubs' net debt and Championship clubs' net debt from 2018 to 2022**

Chart 2: Premier League clubs' net debt – 2018 to 2022 (£m)



Chart 3: Championship clubs' net debt – 2018 to 2022 (£m)



Source: Deloitte, 2023, p. 37.

On the left, we can see that the financial institutions such as banks have a more important role to play in Premier League clubs as years pass, something that was potentially intensified because of the COVID-19 pandemic. We can nonetheless see that other forms of borrowing, such as soft loans and other loans, also exist with soft loans, however, appearing rather reduced in 2022.

In the case of the championship, the second division of professional football in the country, soft loans appear to be dominating that net

structure of the debt of the clubs of the league, with bank loans and borrowings increasing only towards 2022.

Again, let us not rush to make any assumptions based on the image we see here. Instead, let us appreciate the fact that the financial system is operating well enough to support the industry in further developing.

Having examined in theory and practice how financial systems can and do influence commercial sport, it is now worth discussing how they also influence amateur or non-commercial sport as well.

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## Unit 2.4 Financial systems and their influence on non-commercial/amateur sport

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Financial systems play a crucial role in shaping the funding and support available to amateur sports. These systems directly influence the availability of financial resources for local clubs, youth teams, and community sports organisations. A robust financial system often translates to increased financial support for amateur sports, whether it is through government grants, private donations, or corporate sponsorships. In regions where the financial system is stable and strong, these grassroots sports programmes are more likely to secure the funding necessary to operate effectively and provide opportunities for aspiring athletes (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

Access to adequate funding and support is instrumental in ensuring that amateur sports can thrive and remain accessible to a broad cross-section of the population. Financial stability and economic growth within a community often result in greater investment in youth sports programmes, enabling organisations to cover expenses related to coaching, equipment, facilities, and even financial

assistance for families who might otherwise struggle to afford participation fees. A robust financial system can thus help level the playing field, ensuring that amateur sports remain inclusive and open to individuals regardless of their financial background.

Furthermore, the quality and quantity of resources available for amateur sports development are heavily dependent on the financial system (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Financial stability can lead to more substantial investments in coaching and training programmes, elevating the quality of coaching staff and the resources available to young athletes. This support aids in the long-term development of local talent and encourages increased participation in amateur sports, fostering not only physical fitness, but also community engagement and pride in local sports programmes.

At the same time, the influence of financial systems on amateur sports extends to infrastructure development. The availability of sports facilities, equipment, and training resources relies heavily on the financial health of the local and regional economy. A strong financial system can pave the way for investments in constructing and maintaining sports venues, as well as acquiring necessary equipment. In contrast, a weaker financial system may hinder these developments, limiting access to quality facilities for amateur athletes.

Financial stability plays a significant role in the construction and maintenance of sports venues. Well-funded local governments or organisations are more likely to secure financing for the building of sports facilities. This, in turn, creates a positive feedback loop, attracting more athletes and supporters to the area. The financial system's influence on infrastructure development thus directly impacts on the quality and availability of sports facilities for amateur sports, fostering the growth and accessibility of these programmes.

The purchase of equipment and resources for amateur sports also hinges on the financial system. Strong financial institutions and a stable financial environment can lead to more significant investments in equipment and training resources, ensuring that young athletes have access to the tools they need to excel. Weaker financial systems may result in financial constraints for individuals, families, and organisations, limiting their ability to provide athletes with the equipment required for safe and effective training (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011).

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## Unit 2.5 Financial systems and their influence on non-commercial/amateur sport in practice

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Now let us see how this materialises in today's landscape by focusing on one single country. That is because different financial systems operate in different countries and, as such, different governmental policies are implemented within them. Let us again focus on the case of the UK. In this case, we know that the government is still funding a very large number of non-professional sports.

Amateur or non-commercialised sports, therefore, rely on government funding for most of their needs, with research suggesting that Government funding accounts for more than 90% of their overall income (Berry and Manoli, 2018). Government funding is a fundamental aspect of the financial system of any country, and it is, in fact, one of the main financial systems that can and indeed is assisting non-commercial sports.

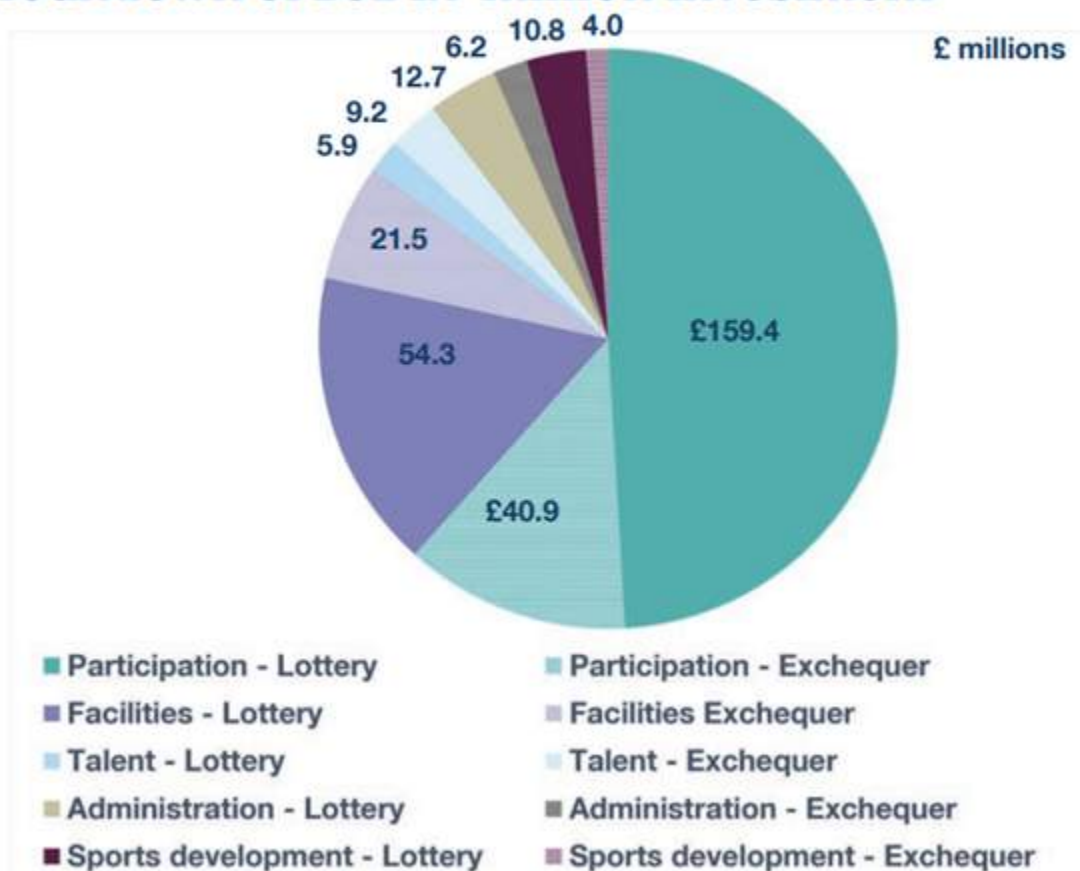
The Governmental financial system, as we discussed above, is believed to be fundamental for the promotion of sport, sport participation, inclusivity, and the development of new talent. In the

case of the UK, the organisation called Sport England is in charge of the support of non-commercial sports (Berry and Manoli, 2018). At the same time, a different organisation called UK Sport oversees funding sport that is semi-professional, as well as some that are professional, which, nevertheless, has the potential to result in international success in the sport. In other words, UK Sport funds elite sport, while Sport England is focused on supporting non-elite sport. These two organisations oversee providing resources and thus financial support to sport to ensure that they can be sustainable and hopefully prosper.

In the case of Sport England, we are presented with the following figure breaking down how a £324.9 million investment was made in sport in one single year.

**Figure 3. Sport England's investment in amateur sport in 2014-15**

## Breakdown of £324.9 million investment



Source: Sport England, 2015, p. 6.

As we can see in the figure, most of the money spent from Sport England was focused on sport participation. Echoing what we just argued about financial systems, we can thus see in this figure that a government financial system is a fundamental aspect supporting the sports and allowing for sport participation to increase, developing new talent and reaping the benefits of sport as a social good to improve social inclusion, health and wellbeing, and the development of social capital in the community.

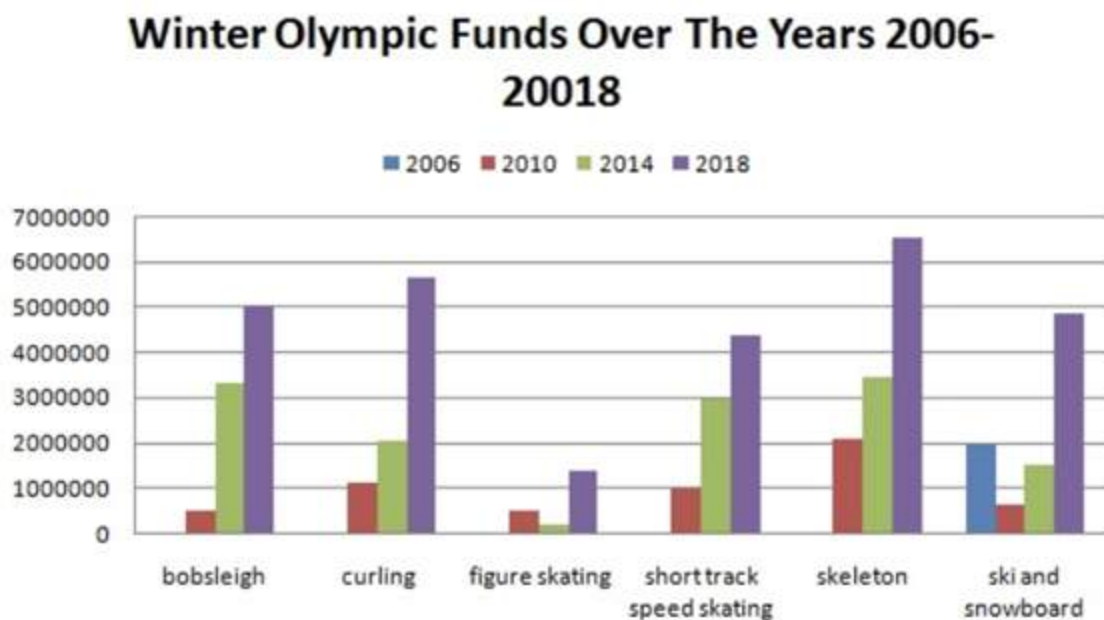
We can also see that a smaller percentage of this money was spent on facilities. Facilities would include the maintenance and development of new facilities to allow for individuals who are interested in sport, to be able to play it. Let us not forget that some sports require specialised equipment; swimming, for example, would require for community pools to be created and maintained, for people around the country to have access to swimming facilities, ensuring that they can participate in the sport as intended.

Talent development and administration, as well as sports development, are also expenses that we can see in the figure, but they represent only a very small part when compared to mostly participation and then facilities.

Now let us look into the report coming from the other organisation, UK Sport. In this case, we are examining sports that can be considered elite and that, therefore, can be hopefully expected to provide the country with medals in the upcoming international events. However, at the same time, some of these sports cannot be considered professional sports. Let us investigate Winter Olympics sports such as bobsleigh, curling, and skeleton, for example. Whilst these sports can result in medals in international events, we can safely argue that they are not commercially profitable or at least not as commercially profitable as other sports are (e.g., football, tennis, rugby).

In this case, we can see that the government, through the UK Sport institution, has been supporting the sports through significant funds over the years, with a notable increase depicted in 2018. This, in turn, allows us to showcase how non-commercial sports are intrinsically linked to governmental financial systems.

**Figure 4. UK Sport Winter Olympic funds 2006-2018**



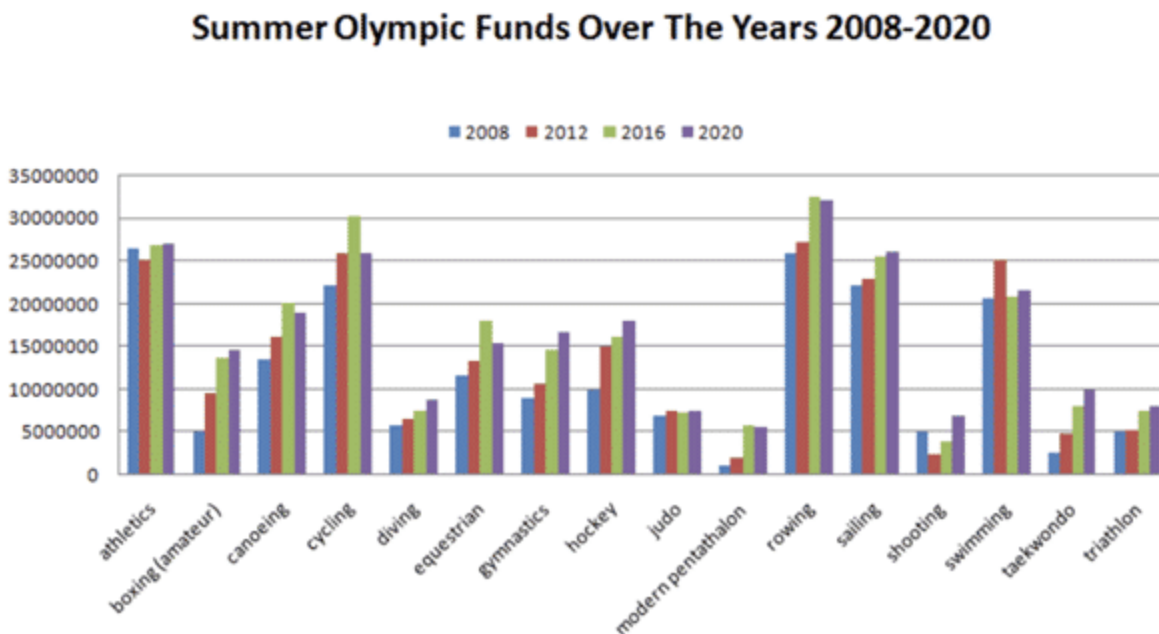
Source: Delta2020, 2017, <https://bit.ly/3uh9MWr>.

If we look at the Summer Olympic events, and the amount of money spent on them, we can see that the numbers are, indeed, higher. The figure below shows both these substantially increased figures and

the types of sports included in them, which can be considered more popular and at times even commercial.

If we look at the figure below carefully, we can appreciate that some of these sports might still not be considered commercial, such as shooting, diving, canoeing or judo. These non-commercial sports, even though they are considered elite sport, also need the support they are getting from the government as the key financial system assisting them, to ensure that their athletes can participate in international competitions.

**Figure 5. UK Sport winter Olympic funds 2006-2018**



Source: Delta2020, 2017, <https://bit.ly/3uh9MWI>.

Interestingly, in this case, the return on investment for the government for their financial support might not be a particular amount of money in the form of an interest rate. Indeed, the governmental support provided for elite sports, be it commercial or not, is not any form of interest rate, nor is there repayment expected as would have been the case in a loan provided by a financial institution like a bank. In this case, and more directly related to UK Sport funding, the return on investment on the sports mentioned and seen in the figure above would be the winning of medals in international events, and the wider prestige and participation effects that could be noticed, directly linked with such an elite performance (Berry and Manoli, 2018).

More detailed information on the direct support relationship between elite sport of either commercial and non-commercial sport and the governmental financial system in the UK, as well as an evolution of the financial support provided, can be found in the UK Sport website (n.d.), where information is provided concerning all supported sport over time.

Having covered the operational relationship between financial systems such as financial institutions and governmental financial systems with sport, it is worth examining another aspect of financial systems and how they operate and influence sport: that of private investment and asset management, and sports organisations. We will discuss this in the section below.

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## Unit 2.6 Private investment and asset management and sport organisations

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Private investment and asset management firms have a significant impact on the financial health and growth of sports organisations (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). This relationship extends to several key areas, each of which plays a crucial role in the success and sustainability of sports entities.

Private investment firms often become stakeholders in sports organisations, either by taking ownership stakes or through direct financial investments. Their capital injections provide much-needed financial support, which is essential for the development of sports infrastructure, talent acquisition, and operational sustainability. For professional sports teams, private investors can have a transformative effect, injecting capital for more star player acquisitions, stadium upgrades, and marketing efforts. This not only enhances the organisation's competitiveness, but also improves the fan experience, ultimately driving revenue growth.

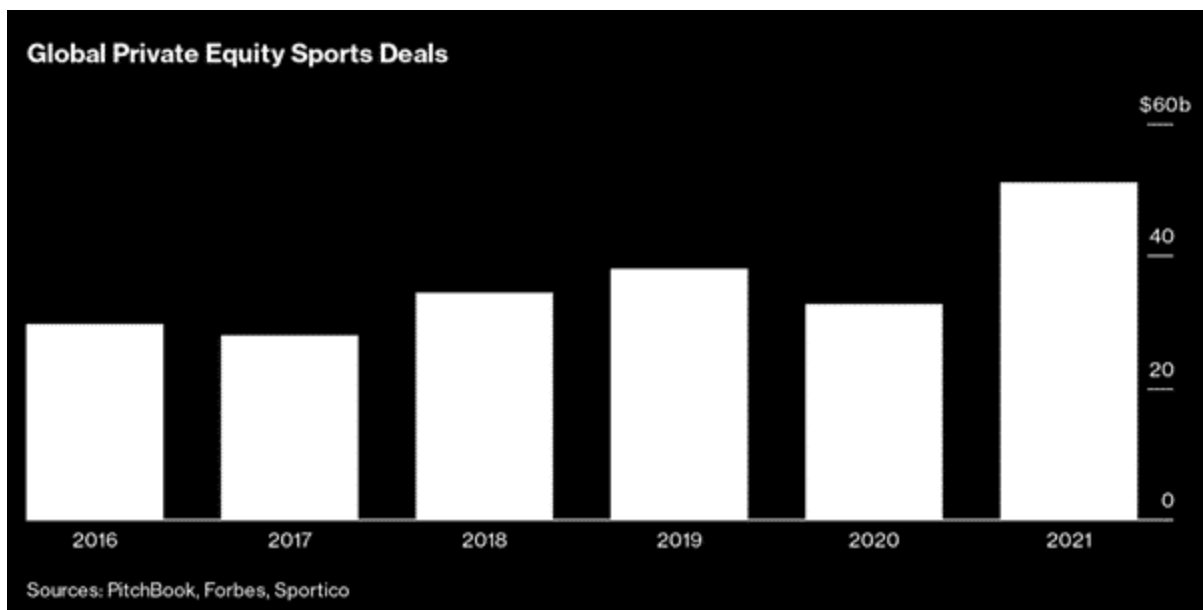
Moreover, private investment and asset management firms are often instrumental in securing sponsorships and commercial partnerships for sports organisations (Brown *et al.*, 2016; Stewart, 2017; Wilson, 2011). Their extensive networks and financial expertise can open doors to lucrative sponsorship deals with corporations, which can include stadium naming rights, jersey sponsorships, or promotional arrangements. These partnerships can provide a substantial source of revenue for sports organisations, enabling them to fund player contracts, youth development programmes, and community initiatives. The financial acumen of these firms ensures that sponsorships are structured in a manner that maximises returns for both the organisation and the sponsor, while the undeniable use of their own extensive networks is known to completely revolutionise the way in which sponsorship opportunities are seized.

A recent example of this can be seen in the UAE cycling team, also known as the UAE Team Emirates, which has undergone significant changes and improvements thanks to the support and sponsorship it has received over the years. The team's transformation can be attributed to several key sponsors and their contributions, the most important of which being the sponsorship with Emirates (UAE Team Emirates, n. d.). The team's name itself, 'UAE Team Emirates', reflects the influence of its primary sponsor, the United Arab Emirates. The UAE's government and royal family have been instrumental in establishing and supporting the team in securing this and other

sponsorship deals, with their significant financial backing being accredited for building a competitive cycling team.

Private equity firms have been long expected to dominate sport, and we are being told that, in the last few years, global private equity sport deals are indeed increasing. As we can see in the figure below, the 2020 pandemic slowed down that increase with 2021, nevertheless, showing a clear surpassing of the \$50 billion mark.

**Figure 6. Global private equity sports deals**



Source: Bloomberg, 2022, <https://bit.ly/3MESe2>.

That means that the total amount of private equity sport deals around the world accounted for that single one year in 2021 was

around \$50 billion. While this number encapsulates the global scale, it is worth paying additional attention to what is happening in Europe.

Within Europe, we can see that an equally high private equity deal activity exists, with the numbers increasing year after year. Whilst again, the COVID-19 pandemic seems to have influenced this progress, we can see in the figure below that, until 2019, that number was increasingly going up.

According to the figure below, we can see an increasing number of deals being made every year, with 2017 seeing 16 deals made between private equity firms and sport organisations. The value of these deals, which is pictured in the dark blue columns, increased over the years with 2019, seeing a total of \$900 million worth of deals.

**Figure 7. Europe private equity activity in sports**

## Europe PE deal activity in sports



Source: PitchBook  
\*As of June 30

Source: Pitchbook, 2020, <https://bit.ly/3FYiGKV>.

Interestingly, the COVID-19 pandemic, as we argued, slowed down this progress, which is nonetheless expected to continue to increase. After all, all we must observe is the interest we notice by various organisations managing private wealth, some of which are based in Northern America, the Middle East, and China, in investing in global sport.

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## Unit 2.7 Conclusion

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In this second module of the course, we focused on financial systems and how they operate and are linked with sport. We therefore began our module by introducing financial systems in general. Before we discussed how they are connected with the world of sport, we got into a bit more detail further down by discussing financial systems and their connections with commercial and non-commercial sport, and looked at some particular cases in practice to distinguish elite non-commercial from elite commercial sport and the operating support they receive from the financial systems. Finally, we focused on an emerging issue in the world of sport, that of private investment and asset management and sport organisations. This final section allowed us to identify the current trend in the sport industry in terms of the operational support of financial systems in the world of sport, and how that appears to be developing in the years to come.

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